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ENGLAND'S EFFORT TO PAY FOR THE WAR OUT OF SAVINGS¹

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THE story of the British effort to pay for the war out of savings is one of a gradually widening vision of what was involved. When the war began, thinking by departments was the order of the day. It was customary to speak of "the navy's task" and "the army's task" and "the treasury's task," and while it was, of course, realized that they all contributed toward the achievement of one purpose, it was as much as each department could do, when the war first broke out, to concentrate on its own particular activity.

The first big task with which Great Britain was confronted was the need for an army of millions instead of an army of thousands. A recruiting campaign was set in motion, and for a time everything was subordinated to the obtaining of recruits for the army. In spite of the interference with normal business which inevitably resulted, we were sufficiently blind to what was really happening to accept the cry of "business as usual" as our first catchword. That phrase had its proper significance when it was invented, but it attained a much wider meaning than was intended by its author. Its proper limited meaning was that in spite of the shock to credit and to the mechanism of finance, it was the duty of those who could not fight to attend to the everyday details of their own business and keep the machinery of business and finance running as smoothly as might be. It meant that there was work for everyone to do and that harm, and not good, would result if people wasted their time and energy by neglecting their ordinary occupations as if they were the excited spectators of a drama, and as if watching the unfolding of the drama was all they had to do.

After the recruiting campaign, came the shortage of munitions. The two subjects of recruiting and of the production of munitions were closely connected. It became evident that the scale on which we were producing munitions of war had to be increased in

¹ Address at the meeting of the Academy of Political Science, December 14, 1917.

even larger proportion than we had increased, or were trying to increase, the numbers of our army. The Munitions Department was accordingly created and set to work on its task of organizing industry and labor for the production of engines of war on a colossal scale. Yet it was some time before the questions of recruiting and of the production of munitions were fully co-ordinated, and it was only after immense efforts that the need for recruits and the need for munitions were visualized and regulated as two aspects of the same problem.

Meanwhile finance was following its own course. During the first five months of the war those who were responsible for finance were mainly taken up with heroic and, on the whole, successful measures to prevent the collapse of the delicate machinery of modern finance based on credit and credit instruments. Owing to Great Britain's position as the center of international finance, this problem involved not merely Great Britain, but the world as a whole. During the same period some provisional steps were taken to increase taxation, and a war loan of \$1,750,000,000 was issued. This was no mean feat at a time when all the stock exchanges of the world were closed, and when but three months had elapsed since the fateful days at the end of July 1914, when international finance seemed to be on the verge of complete paralysis.

It was in January 1915, when the London stock exchange was re-opened, that the first official steps were taken toward conserving the capital of the country for the financing of the war. The stock exchanges of Great Britain were re-opened under new conditions. They were bound, as they are bound today, by what are still known as the temporary regulations for the re-opening of the stock exchange, which imposed very strict limitations on all dealings in capital. Among the questions which were uppermost in the minds of the bankers and brokers during the discussion with the treasury as to these regulations was the protection of the London money market against enemy dealings in securities; but there were two of the regulations unobtrusively introduced which involved quite other considerations. These were the regulations which aimed at preventing any new issue of capital during the war without treasury approval, and which prohibited the sale in the United Kingdom of any securities which had not been continuously in physical possession in the United Kingdom since the beginning of the war. Both these regulations were aimed in part

at the prevention of enemy dealings, but they were really a first step toward the use of financial weapons to discourage business that was not essential for the prosecution of the war. It was only gradually that people began to understand that by preventing the purchase in Great Britain of securities imported into Great Britain since the war began, the treasury was aiming at preserving for investment in war loans any new capital seeking investment. The restrictions on new issues of capital were naturally followed by restrictions on capital expenditure by municipal and public bodies. At first the municipal authorities were not inclined to accept any restrictions. Their favorite argument was that investors in securities of the kind which they issued would not in any case invest money in government securities, and that, therefore, they were not competing with the government. But they gradually came to understand that whether or not the money which they refrained from using for capital expenditure was lent to the government, they would, by refraining from spending it, be leaving a free field to the government for the labor and materials which the government desired for the war. The question of conserving the capital of the country for the war began to be envisaged as merely one aspect of the question of releasing men for the colors and setting free labor for munition works. A big step forward was taken when the local authorities generally, convinced by these arguments, co-operated loyally with the government in discouraging all forms of municipal expenditure which could not be defended as being necessary for the achievement of victory.

Meanwhile the problem of paying for the war out of savings was being approached from another point of view. In accordance with her old traditions, Great Britain proceeded to increase taxation as fast as seemed possible without causing overwhelming disturbance of monetary conditions. The initial increases in taxation were small in comparison with what has since been achieved, but it may be convenient at this point to anticipate the story a little and to give the figures of British annual revenue for the whole period of the war.

In the financial year 1913-1914, the last complete year before the war, Great Britain's revenue and expenditure amounted to just under £200,000,000, or \$1,000,000,000, her expenditure including, however, a sum of about £10,000,000, or \$50,000,000, for reduction of debt.

In the year 1914-1915 the total revenue was £270,332,000, say \$1,350,000,000.

In 1915-1916 the revenue was £336,766,824, say \$1,680,000,000.

In 1916-1917 the revenue was £573,427,582, say \$2,870,000,000.

For 1917-1918 it is estimated that the revenue will amount to between £650,000,000 and £700,000,000, that is to say, to something between \$3,250,000,000 and \$3,500,000,000.

As compared with the pre-war figures, this means that an additional \$2,250,000,000 to \$2,500,000,000 is being taken out of the pockets of the people each year. This is a very considerable first charge on the annual savings of the country. Indeed, it is not far short of the highest estimate of the total annual savings of Great Britain prior to the war. Of course, with the rise in prices and the immense increase in productive activity directed to war purposes, with the decrease in unessential expenditure, the annual savings of the country (leaving out of account the government's expenditure on the war) have increased enormously.

But it was not possible to impose the extra taxation all at once. The treasury realized from the first that extra taxation and subscriptions for war loans must come out of the same source, namely, the surplus of the income of the country over the amount spent by private individuals on their own requirements; or, in other words, out of the surplus of the goods and services produced over those privately consumed. The position was, of course, very considerably obscured by the fact that people in England were able, if they wished, to contribute both to taxation and to war loans out of the proceeds of the sale of securities, and it was not easy to make people in general recognize the essential difference between the sale of securities by John Smith of London to John Jones of London, and the sale of securities by John Bull to Uncle Sam. The power to obtain cash, or, in other words, the power to obtain immediate command of the goods and services in course of production in the world by selling securities to neutrals, was one which has been of enormous importance to Great Britain in financing the war. It is still of some importance, but with the gradual disappearance of neutrals the world over and in particular with the joining of the Allies by the United States, the sale of securities in Great Britain to purchasers beyond the seas has lost a large part of its former value as a means of financing the war.

Now that the whole of the resources of the United States are thrown upon the side of the Allies, the sale of American railroad stock by London to New York no longer adds to the resources available for war against Germany. All that it does is to transfer from America to Great Britain the power to command goods and services which are in any case already potentially available for war requirements. In other words, the war must now be paid for entirely out of the annual savings of the nations at war. At the time I am speaking of, in 1915, such sales of securities to the United States meant that Americans accepted the past savings of Great Britain in exchange for goods and services actually being produced in America.

From the point of view of the country as a whole, the sale of securities abroad and borrowing of money abroad mean that past savings are being dissipated. It is, therefore, of enormous importance that new savings should be effected. In the case of Great Britain, however, it has to be remembered that new capital has been invested and still is being invested abroad in larger volume than before the war in the form of British loans to Britain's allies. Even since the United States entered the war, Great Britain, in the six months ending September 30, 1917, has lent \$1,450,000,000 to her allies. To a very large extent Great Britain has during the war not so much realized her previous investments abroad as re-invested her savings in new directions.

It would obviously have been undesirable in 1915 to raise taxation to a point at which the taxpayer would have been inclined or compelled to pay his taxes by the sale of securities to neutrals. Taxation as a method of raising money for a war has the advantage that it provides a strong inducement to the taxpayer to economize. If it is increased beyond the point at which for the time being economy is likely to result, heavy taxation does more harm than good. The balance of the expenditure on the war that could not be raised by taxation had, of course, to be raised by borrowings. The issue of a war loan was accordingly decided upon in June 1915, and over £600,000,000 (\$3,000,000,000) was secured. It was during the war-loan campaign of 1915 that the phrase "War Savings" first became popular in Great Britain. An effort was made to issue that war loan in a form which would make it attractive to the small investor. It has never been possible to identify the contribution of the small investor to the various loans issued in Great Britain, owing to the fact that on the

one hand big contributions from building societies, co-operative societies, savings banks, and like institutions, contributions which are really in fact contributions from the small investor, are hidden away among the large subscriptions, while on the other hand, for one reason or another, some of the small bonds issued through the post office have been bought by others besides the small investor. Financially, the response from the small investor to the invitation for subscriptions through the post office in the war loan of July 1915, was not unsatisfactory, but in the course of the next six months, experience proved that the problem of securing contributions to the war loans from the wage earner was still altogether unsolved. So little was the true state of affairs realized that quite patriotic people thought they were really helping when they were enticed into buying such things as motor cars by advertisements offering to take payment in whole or in part in war-loan bonds—as if it were not obvious that the last thing a patriot should do is to sell or part with his war-loan holdings for the sake of obtaining cash to spend on luxuries. A campaign for war savings was started immediately after the war loan of July 1915, but its results were not very satisfactory. It was almost entirely a bond-selling campaign, and there was little attempt to explain the fundamental reasons why saving was important. Local war savings committees were established in various cities, but as they had nothing suitable in the way of a bond to sell to the small investor, and as they had no definite functions other than those of preaching, they soon either died a natural death, or if they remained nominally alive, were quite inactive. When a new war savings campaign was opened on new lines in 1916, one of its first problems was to overcome the resulting unpopularity of the war savings movement, and to obtain the substitution of active and vigorous local war savings committees in places where one of the old committees was still officially in existence.

The 1915 war savings campaign failed, and the cause of its failure was that those who were conducting it were still thinking in terms of money. The British experience was that the essential prerequisite to a successful war savings campaign is to translate terms of money into terms of the things which money commands, or into terms of "goods and services."

Although it had obviously become antediluvian, the cry of "business as usual" had still strong hold throughout the country. It was incompatible with the setting free of labor from non-

essentials to essentials such as the production of munitions; but "business as usual" appeals strongly to natural human selfishness and was in many cases, I fear, a cloak for the cry of "pleasure as usual." I do not mean to say that those who were using the cry of "business as usual" were consciously unpatriotic; the difficulty was to make them see the fallacy of their position. The arguments which they produced were plausible. "How can we pay taxes if our business is taken away from us?" was, perhaps, their favorite argument. When in the beginning of 1916 the National War Savings Committee was appointed, it set to work to combat this argument. Its answer was this: If I spend £100 on buying things and so enable the seller to pay £10 extra in taxes, surely it would be much better if instead of spending the £100 I lent the whole of it to the government. And then we went on to explain that there was an absolute shortage of goods and services available for the war, that energy must be transferred from the production of non-essentials to the production of essentials, that the consumption of non-essentials must cease in order that their production might cease. Moreover, the opportunity for a transfer of energy from non-essential to essential businesses was unique. There was an unlimited demand by the government for the labor and the skill of all who had labor and skill to offer, and if non-essential businesses were closed down there would be no difficulty whatever in finding employment for those who had previously been engaged in them, whether as employers or as employees. In many cases the transfer was extraordinarily simple. Jewelers and watchmakers can turn almost immediately to the manufacture of fuses. I know a builder in London who was able to turn his workshops almost without any changes into the making of shells.

At the end of 1915 a committee under the chairmanship of Mr. Edwin Montagu, now secretary of state for India, who was at that time financial secretary to the Treasury, discussed the question of war loans for the small investor. In its report this committee wisely went one better than its title: it declared that the problem was to secure savings by rich and poor alike, that saving was the essential thing, and that if the savings effected could be secured as subscriptions to government war issues, incidental advantages would result, but that the first and most important thing was to make people save. It was on the recommendation of this committee that the National War Savings Committee was ap-

pointed. I have already described before many audiences in this country the progress of the war savings campaign which was initiated by the National War Savings Committee, and I do not propose to repeat today at any length what I have had to say on that subject. The success of the war savings campaign—it has been an undoubted success—was due to a large extent to the invention of the war savings certificate which has now the proud privilege of being the model for the American war savings certificate. In addition, small exchequer bonds in denominations of £5 and upwards were placed on continuous sale over the counter at the post offices. In a large measure also success has been due to the organization of local war savings committees and war savings associations throughout the country. It was a new idea in England to go out to the public and persuade them to buy bonds. Prior to the war, the financial houses in Great Britain which had bonds to sell expected the investor to come to them and buy the bonds; they did nothing more in the way of touting for custom than the despatch of circulars to selected addresses. The National War Savings Committee gradually built up an organization which urged people to save and buy government securities, and offered easy facilities for obtaining them.

But at bottom the success of the war savings campaign has been due not to the excellence of the securities which it had to sell, not to its organization, not to its bond-selling efforts, but to the atmosphere which it has created. It is hard to describe what I mean by the phrase "war savings atmosphere." Those who have taken part in the war savings movement in Britain understand what it means. I have said that the terms of reference on which the National War Savings Committee was appointed emphasized the importance of saving, and left the question of investment in government securities in the second place. Starting out from this basis, the committee gradually extended its conception of what its duties were. It had been appointed at a time when thinking in departments was still prevalent, but when the country as a whole was beginning to be conscious that behind the diversity of departmental duties there was unity to be aimed at, all directed towards the same object—victory, the victory of democracy over tyranny, and that there must be some single idea and ideal in which the diversity of departmental duties could be gathered together in a higher unity. The members of the National War Savings Committee began by urging the importance of savings.

And in explaining savings to themselves and to others, they began to see that the word meant the placing of goods and services at the disposal of the government in increasing volume, that it meant increased production, avoidance of waste, as well as refraining from unnecessary expenditure. Service for the country, whether paid or unpaid, increases the goods and services available for the war. Bandages and Red Cross articles produced by voluntary labor increase the goods available for the war. It does not matter whether they are paid for or not paid for. Thus the National War Savings Committee and those whom it reached throughout the country began to see that all the problems of the war could be summed up in one idea—that the release of men for the colors, the production of more munitions, increased agricultural production, the problem of organizing labor for war, the tonnage problem, the problem of shortage of means of transportation, were all aspects of this one idea; the effort to save money by avoiding expenditure was only another aspect of it. And it could all be summed up in the ideal of a nation organized for war, but organized by its own voluntary effort in a democratic way and not by force imposed from above. It was this ideal that the National War Savings Committee began to see as its vision widened. Its workers went about the country showing people that what was necessary was to increase the goods and services available for the war and that this must be done by increased production on the one hand, and on the other hand by stern economy in the avoidance of all expenditure which would put the individual in competition with the government for the goods and services which the nation needed.

An organization has been built up covering the whole country. There is a local war savings committee—there are over 1,500 of them in all—within easy reach of every inhabitant of Great Britain. Its function is to explain the need for war savings and to establish and supervise war savings associations. These latter are clubs for co-operative saving by instalments, providing the readiest of facilities for the saving of small sums. Over 40,000 such associations are now at work.

The war savings movement was like a snowball. Each new local committee added new workers; each new association led to the establishment of other associations; each new member of a war savings association brought in other members. The enthusiasm engendered was extraordinary. It was the unselfish ideal

behind the movement which was the key to this enthusiasm. The only phrases that I can use that seem at all to do justice to our experience are religious phrases. We went about proclaiming the gospel of right spending. A revivalist movement is the best parallel for the growth of the war savings movement. Our workers were missionaries. We owe much to the democratic nature of our organization. The Briton refused to be organized for war from above, but he quickly understood what was meant by the organizing for war of the people, by the people, for the people. What happened in the movement for increase of munitions production might be cited as a parallel; it was to a great extent labor itself which organized labor for the production of munitions through the action of its own unions.

It is obvious that statistics are a very poor index by which to measure the result of the war savings movement in Great Britain. The figures of the Victory Loan in January and February 1917, however, show something of the value of the organization created. The financiers hoped for a total of £500,000,000 or £600,000,000—\$2,500,000,000 to \$3,000,000,000. The war savings organization placed itself at the disposal of the chancellor of the exchequer, and the total of the loan was over £1,000,000,000—over \$5,000,000,000. The following statistics may serve as illustrations of what the small investor has done. They must be taken with reserve in so far as the small investor was and is an undefined entity, and allowance must be made for the fact that there are absolutely no statistics whatever available in which the subscribers to war loans issued through the Bank of England are classified according to the amount of their subscriptions. The total amount subscribed to British government war loans issued through the post office, that is, in denominations from 15s. 6d. upwards, up to September 30, 1917, is £206,000,000, or just over \$1,000,000,000. Of this amount war savings certificates accounted for just under £100,000,000 (\$500,000,000) net cash. All but about £35,000,000 (\$175,000,000) of this total of \$1,000,000,000 has been subscribed since January 1916.

The number of holders of war savings certificates is not exactly ascertainable, but it is estimated at not less than 12,000,000 persons, and may be as large as 15,000,000. The total population of the British Isles is about 45,000,000, so that more than one-quarter of the population or possibly as many as one-third have a direct interest in government securities, and remember that

no attempt has been made to make wealthy people invest in war savings certificates. The object of the issue was to provide an investment for the new savings of those for whom war loans and war bonds were not a convenient security. There was no desire to attract into war savings certificates money which would otherwise go into war loan bonds.

One further bit of information has just reached me. Prices have now risen to a level which is quite out of proportion to recent increases in wages in Great Britain. A year ago the rise in prices was still far behind the relative increase in wages, especially if the family be taken as a unit. For the increased number of its members in paid employment had meant for many a family an aggregate income of a size never dreamed of before the war: Yet in spite of all adverse factors, the number of war savings certificates sold weekly is equal to what it was a year ago. But whereas a year ago the sales were effected chiefly through the post offices and banks, at the present time the war savings associations are the largest factor in the weekly totals.

When we look back to the days before July 1914, and think of the changes which the war has brought about, one of the most remarkable in my opinion has been the immense widening of our outlook and the broadening of our vision. We have been lifted out of our own narrow and self-regarding interests. The world has been made one in suffering. Everywhere when men and women talk of the period after the war thoughts are expressed and projects are formulated which, if they have any real meaning at all, imply that never again will the conscience of humanity permit individuals or classes, or even individual nations or groups of nations, to put forward the claim that in the exercise of their own individual rights or "sovereign" powers they are justified in riding rough-shod over the rights and interests of humanity as a whole. This widening of outlook and of vision has been very marked in the story of Britain's effort to pay for the war out of savings. It is the story of the gradual growth of a wider vision in the region of war finance till the vision transcended that region and proclaimed that the problem of financing the war was neither more nor less than the problem of organizing ourselves for victory so that all the resources of the British nation, spiritual, moral and material, might be brought to bear on the achievement of a single purpose. Thinking in terms of money became impossible. Thought had to be translated from money terms into terms of

human activities. The message of the war savings movement became: "Produce more, consume less, waste nothing. The government wants all the goods and services the country can provide. If you have services to offer, offer them abundantly. It does not matter whether or what you are paid for your services: spend your money and yourself in the service of your country. In war time your money is your own to spend only if you spend it in a way that will help to win the war. If you waste it, or if you spend it on luxuries, even on comforts, or on anything not essential to health and efficiency, you are trenching on the surplus of goods and services that ought to be made available for the purpose of the war and you are increasing the toll which death takes from those who are risking their all for you." It has been impossible to stop at this point. "Spend your money and yourselves in the service of others." If this message is true in war time it must be true in peace time. Democracy must learn to organize itself for the good of the world. I am vividly conscious of the fact that the old problem of reconciling individual freedom with the greatest good of the greatest number is still unsolved. But after all is the message anything new? Is it not the old message of Christianity—that happiness lies in forgetfulness of self, and has not the war taught us all once again how much happier simplicity of life and service for others make us than the vanity of extravagance for the sake of extravagance? And so, in the dim distance, discerned as yet by faith and not by reasoning, the student of economics sees a vision of a new economic philosophy after the war, perhaps even of a new organization of society where both in individual and in national expenditure the duty and the pleasure of right spending will be known and enjoyed.